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ABSTRACT

This annual report of the Carnegie Foundation sets forth the goals the foundation has established for the improvement of education: (1) an urgent call to national action in school reform; (2) a commitment to the disadvantaged; (3) a crusade to strengthen teaching; (4) state standards, with leadership at the local school; (5) a quality curriculum; and (6) an effective way to monitor results. The report of the foundation's treasurer provides comprehensive information on the income and expenditures for the year. The Carnegie philanthropies are briefly described. (JD)

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THE CARNEGIE FOUNDATION FOR THE ADVANCEMENT OF TEACHING

THE EIGHTY-FOURTH ANNUAL REPORT

June 30, 1989

The Carnegie Foundation for the Advancement of Teaching was founded by Andrew Carnegie in 1905 and chartered by Congress in 1906. Long concerned with pensions and pension systems for college and university teachers, the Foundation has also sponsored extensive research on education.

As an independent policy center, it now conducts studies devoted to the strengthening of American education at all levels.

THE CARNEGIE FOUNDATION FOR THE ADVANCEMENT OF TEACHING

EIGHTY-FOURTH ANNUAL REPORT

FOR THE YEAR ENDED

JUNE 30, 1989

5 Ivy Lane
Princeton, New Jersey 08540

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as of June 30, 1989

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REPORT OF THE PRESIDENT

IT HAS BEEN six years since the National Commission on Excellence in Education declared "The nation is at risk," and since that warning hit the headlines, America has been engaged in the most sustained drive for school renewal in its history. Academic standards have been raised, teachers' salaries have gone up, and business leaders have become strong advocates of public education.

But with all of our achievements, there still remains a disturbing gap between rhetoric and results. Many of our students receive a first-class education. But the majority go to schools that range from good to mediocre, and for large numbers of our young people, schooling is a failure.

What's gone wrong? Why is school performance so uneven?

The problem is that our efforts have been more fragmented than coherent. Since 1983, we've had a flood of reports on education, but no comprehensive plan. A variety of model schools has been introduced, but it's a reform strategy best described as "excellence by exception." If school reform has begun to stall, it's not from lack of effort, but from lack of overall direction.

This piecemeal approach is not surprising. It dates back to 1647 when the Massachusetts Bay Colony required every town or village to hire a schoolmaster to teach its own children to read and write. From the very first, our schools have been *locally* controlled, *locally* supported, and accountable only to the parents. This "unsystematic" system of public education—some might even say "chaotic"—seemed to work, and, for years, Americans have had great confidence in their schools.

Now, the pendulum has shifted. Today, less than half the support for public education comes from local districts. Voter participation in school elections is low, and, with increased mobility, neighborhoods less stable. America's traditional grass-roots approach to public education has weakened.

Further, Americans are troubled that millions of students are economically and civically ill-prepared. We're shocked that high school graduates cannot confidently read and write, or accurately compute. We're deeply worried that the United States is losing the high-tech race.

"Modern societies," John Gardner said, "run on talent," and there's a growing conviction that the nation's 83,000 schools, 16,000 districts, and 50 states cannot, without coordination, meet the challenge.

Indeed, Americans today seem less concerned about local control than about national results—convinced that if the nation is at risk, the nation must respond.

- Consider that, just two years ago, a ***national*** board for teacher certification was created.
- Consider that the U.S. Department of Education now presents, annually, a ***national*** report card on school performance.
- Consider that former Secretary of Education William Bennett's James Madison High School contained a proposed ***national*** curriculum.
- Consider, especially, that we've just elected, to the highest office in the land, a candidate who pledged to be the "Education President"—suggesting ***national*** leadership in education.

This is an historic moment. America is moving, in fits and starts, toward a national view of education, but how can we achieve more coherence without sacrificing vitality at the local level? It's a new challenge, something we've never seriously faced before, and our response surely will shape education in this country for years to come.

Clearly, we don't need a federal ministry of education to force all schools into a bureaucratic lockstep. We don't need yet one more critical report. We don't need more "patch work" and "tinkering." We ***know*** what works.

What we ***do*** need is a ***national*** agenda for school reform. We need a strategy that sustains state and local leadership, while giving coherence to the effort, overall. And I'd like to focus on five priorities that are crucial if our push for excellence is to be, not just symbolic, but systemic.

GOALS

FIRST, a national strategy for school reform requires a larger vision, and the President himself must lead the way.

If a health epidemic were striking one-fourth of the children in this country, if snow were piling up on city streets, if we had heaps of garbage on the curbs, a national emergency would be declared. But when hundreds of

thousands of students leave school, year-after-year, shockingly unprepared, the nation remains far too lethargic.

We need an urgent call to action. And this is where corporate America has a role to play. To paraphrase the TV commercial, "When the Fortune 500 speak out for better schools, politicians listen."

Last fall, I suggested that the next President call a summit meeting of the governors from all fifty states, declaring that this nation is committed to provide, for every student, a solid vocational, civic, and moral education. The goal must be quality for all.

I also suggested that the next President, as a national objective, pledge that by the year 2000—when today's first graders are high school seniors—America will have the best education system in the world.

Over forty years ago, Secretary of State George C. Marshall, in an historic address at Harvard University, announced a bold recovery plan to lift Europe out of the ashes of a devastating war. This was an audacious proposition, wildly optimistic. But let the record show that, within four short years, the European community was miraculously reborn. The Marshall Plan—with a $12 billion assist from the United States—delivered dramatically on its promise.

Dreams can be fulfilled only when they've been defined. As a national strategy, let's commit ourselves to rebuild, within a decade, the nation's schools, just as the Marshall Plan helped rebuild a devastated world.

EQUALITY

TO REBUILD the schools, America must focus, with special urgency, on students who are least advantaged.

To talk about school reform while ignoring poor children is dangerously to misdiagnose the problem. The Harvard School of Public Health recently reported that a child who is nutritionally deficient will have a lower IQ, shorter attention span, and get lower grades in school. Yet, in the United States today, nearly one out of every four school-age children is classified as poor. They're neglected, undernourished. They lack even the most basic care required to have a healthy start, and to disregard the tragedy of poor children is to imperil the future of the nation.

Poverty and schooling are inextricably connected, and it's here that the

federal government's obligation is most explicit. Winston Churchill observed that there is no finer investment for any community than "putting milk into babies," and I propose that the federal nutrition program for low-income mothers and babies be fully funded, since better schooling starts with little children.

During the decade of the nineties, let's also incrementally increase support for Head Start, with full funding by the year 2000. This effective program provides preschool education for three- and four-year-old disadvantaged children, and it's a disgrace that twenty years after Head Start was authorized by Congress, only 20 percent of the eligible children are being served.

To give *all* children a better start, let's also reorganize the first years of formal education—that's kindergarten through grade four—into a single unit called "The Basic School." This school would give top priority to language and have no class with more than 15 students each. Each child would get personal attention and rigid grade levels would be blurred.

Also, in the Basic School, all disadvantaged children would get special help in reading and mathematics, with support from the federal Chapter One program, and the school day would be lengthened for afternoon enrichment. The goal is to have every child, by grade four, write with clarity, read with comprehension, compute with accuracy, and effectively speak and listen. If these skills are not well formed, it will be impossible fully to compensate for the failure later on.

Finally, serving the least advantaged means urging states to revise the formulas by which schools are funded. Excellence and equality cannot be divided, and as a national strategy, we must focus on the disadvantaged. We must finance, more fairly, the public schools and give priority to early education, since it's here that the battle for excellence will be won or lost.

TEACHERS

THIRD, this nation must give more dignity and more status to its teachers.

Washington Irving, in his popular nineteenth century story, "The Legend of Sleepy Hollow," describes Ichabod Crane as a man who was "Built like a scarecrow. A gangling, pinheaded, flat-topped oaf. But what would anyone expect? He was *just a teacher*."

It's a paradox. Americans have always had a love affair with education, but we've been enormously ambivalent about teachers. Perhaps it's here that we can borrow something from the Japanese. In Japan, parents are intensely supportive of the schools. In that culture, the term *sensei*, teacher, is a title of great honor.

Last year, at the Carnegie Foundation, we surveyed 22,000 teachers, and I was shocked to discover that 50 percent said that morale in the profession is lower than it was five years ago; only 22 percent said it's gotten better.

We also found that more than 20 percent of today's teachers do *not* help choose textbooks and instructional materials. Over 50 percent do *not* participate in planning their own in-service education, and 70 percent are *not* asked to help shape retention policies at their school. In a word, they're powerless. And then we wonder why our most gifted students do not go into teaching!

There *are* poor teachers. And for the reform movement to succeed, the teaching profession must more vigorously police itself. We simply cannot tolerate mediocrity in the classroom.

But no profession is made healthy by focusing only on what's bad and, today, we need a national strategy to strengthen teaching, one that focuses on the three R's of *recognition, recruitment, and renewal.*

- First, we need a 1989 version of President Dwight Eisenhower's National Defense Education Act—a program of teacher fellowships and summer institutes in every region of the country.
- Second, we need a national campaign to recruit outstanding students into teaching, beginning with those in junior high. Colleges and universities should organize this crusade, focusing especially on black and Hispanic students.
- Third, we need, in every state, a full-tuition scholarship program for top students who agree to teach at least three years in disadvantaged schools. A quarter century ago, John Kennedy inspired the nation's youth to join the Peace Corps to serve the needy overseas. Why not inspire the brightest and the best to serve in inner-city schools and in rural districts here at home?

Finally, let's have teacher recognition programs in every state, and nationally, as well. Specifically, I suggest that President Bush, building on his splendid teacher award program, invite the "teachers of the year" from all 50 states

to a dinner in the East Room of the White House, with the event televised, prime time. It's a symbolic act, but we live by symbols, and a White House dinner would affirm that classroom teachers are the unsung heroes of the nation.

SCHOOL LEADERSHIP

FOURTH, in shaping a national strategy for education, school-based management is crucial.

Thus far, over forty states have drafted tough new regulations. But all too often these mandates focus on bureaucratic procedures rather than on the outcomes of education, forcing teachers and principals to spend more time with paperwork, and less time with their students.

State officials should set goals, provide equitable support, and hold every school accountable for its performance. Here the leadership of governors is crucial. But within this framework, principals and teachers should be given full authority to choose textbooks, shape curriculum, hire teachers, organize the school day, and have discretionary funds to introduce bold innovations.

In other words, we must create, in the nation's 83,000 schools, what industry likes to call "circles of quality control," with teachers and principals creatively building schools that meet high academic standards and meet the needs of students, too.

In a recent Carnegie survey, we found that half the students in eighth grade go home after school to an empty house; 40 percent wish they could spend more time with their mothers and fathers; about a third say their family never sits down together to eat a meal. And many are often lonely.

We also found this sense of loneliness within the school itself, with teenagers often moving anonymously from class to class, lacking contact with adults, and dropping out of school because no one noticed that they had, in fact, dropped in.

Frankly, if I had just one wish for school reform, I would break up every junior and senior high school into units of no more than 400 students each. I would locate these schools as satellite campuses, in shopping malls, in corporate buildings, and at worksites, too. At these satellite campuses, every student should be assigned to a small "support group" of no more than 25 students

each, meeting with a mentor at the beginning of each day to talk about problems, review academic progress, and receive emotional support.

Above all, I would like to see all students feel needed and have a sense of worth. In our report, *High School*, we proposed a new "Carnegie unit" of high school credit—a community service term to help teenagers become responsibly engaged in youth clubs, in retirement villages, and in tutoring other kids at school, discovering a connection between what they learn and how they live.

I'm suggesting that, as a national strategy, every state define its goals, and then give freedom to the schools, focusing on outcomes, not procedures. Such a restructuring will breathe new life into a suffocating system.

ACCOUNTABILITY

FINALLY, we simply must clarify the content of education and find better ways to measure the results.

It's ironic that after six years of unprecedented school reform, we still can't agree on what it means to be an educated person. Some districts and some states have made great progress in defining goals. But in most schools, the K through 12 curriculum is still a Rube Goldberg arrangement that lacks both quality and coherence.

During the past six years, we've added more Carnegie units, but we've failed to ask "What's behind the labels?" We say "science," but *what* science should be studied? History, yes. But *which* history? We require English, but "English" can mean anything from Shakespeare to basic grammar.

As a national strategy, I propose that master teachers and research scholars come together—in a kind of peacetime Manhattan Project—to design, for the twenty-first century, a curriculum that focuses, not just on knowledge acquisition, but on integration, too. If this nation can invest billions in new weapons systems, why can't we invest in a new curriculum for the nation's schools? Specifically, let's have an endowment for this project, supported by both public and private funds.

It's ironic, too, that we still can't agree on how to evaluate school performance, and without reliable yardsticks, no one seems to know for sure if our $180 billion annual investment in public education is paying off. When Secretary Cavazos recently presented his report card on school performance—

using dropout rates, SAT scores and the like—he explained that these yardsticks may not be adequate, but they're all we have. It's like an industry that's unclear about its product, and thus is hopelessly confused about quality control.

The President has a Council of Economic Advisors to keep track of the nation's fiscal health, but we don't have an authoritative way to monitor, adequately, the nation's education health. Perhaps the time has come to establish a National Council on Education Trends. Such a nongovernmental panel—comprised of distinguished citizens from all sectors—could develop a framework by which school performance, state-by-state, could be appropriately assessed.

This is an enormously difficult assignment that may take several years. But careful assessment of education is crucial, and here are some of the questions Americans should be asking:

- Does each state have clearly defined goals for education? Are schools held accountable for results?
- Is school financing adequate? Are states reducing the inequity from one district to another?
- What about the dropout rate? Is it going down, especially among black and Hispanic populations?
- Do teachers feel good about their work? Are salaries adequate and are working conditions getting better?
- Can all students read with comprehension, write with clarity, and accurately compute?
- Have all students learned about the world around them? Do they know about their own heritage, other cultures, and have they discovered the interconnected nature of our world?
- Can students think critically and integrate ideas?
- Do they know the joy of reading, and have the motivation for lifelong learning?
- Are the nonverbal abilities of students—including the aesthetic—being shaped in school?
- Is education increasing the students' self-esteem and helping them become tolerant of others?
- Are students, through community service projects, learning to become responsibly engaged?

- After graduation, how do students perform in college and at the workplace? Are we, in short, preparing our students to be better workers, better citizens, and better people, too?

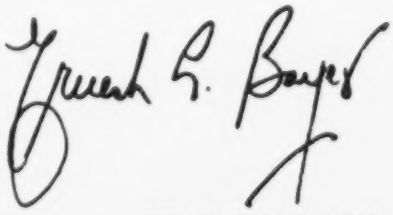
James Agee wrote that "in every child who is born, under no matter what circumstance . . . the potentiality of the human race is born again." As part of the national strategy, let's develop, during the decade of the nineties, a more coherent curriculum for our schools and a more precise, more humane evaluation of our students.

CONCLUSION

HERE, then, is my conclusion. If this nation is to achieve excellence in education, a national strategy is required. This means:

- An urgent call to action,
- A commitment to the disadvantaged,
- A crusade to strengthen teaching,
- State standards, with leadership at the local school,
- A quality curriculum, and
- An effective way to monitor results.

John Gardner said, "A nation is never finished. You can't build it and leave it standing as the Pharaohs did the pyramids. It has to be recreated for each new generation." I'm convinced that the most urgent task our generation now confronts is a crusade to rebuild the nation's schools.



ERNEST L. BOYER
President

REPORT OF THE SECRETARY

THE ANNUAL MEETING of The Carnegie Foundation for the Advancement of Teaching was held on November 15, 1988 in Washington, D.C.

David Hornbeck was elected Chairperson and Norman Francis, Vice Chairperson, each for a two-year period ending after the annual meeting in 1990.

Eugene Cota-Robles and Patricia Albjerg Graham were reelected as members of the board for four-year terms ending after the annual meeting in 1992.

Shirley Strum Kenny, president of Queens College, New York, was elected as a trustee of the Foundation for a four-year term ending after the annual meeting in 1992.

The spring meeting of the board was held on April 18, 1989 at the Foundation's offices at 5 Ivy Lane, Princeton, New Jersey.

Lauren Maidment

LAUREN MAIDMENT
Secretary

REPORT OF THE TREASURER

On June 30, 1989, the assets of The Carnegie Foundation for the Advancement of Teaching were:

	Cost	*Market Value*	*Percent of Market Value*
Cash	$ 148,334	$ 148,334	.27
Fixed Income Securities	25,418,717	26,661,922	48.96
Short Term Investments	2,218,748	2,220,382	4.08
Common Stocks & Convertibles	20,336,578	24,593,355	45.17
Other	829,981	829,981	1.52
Total	$48,952,358	$54,453,974	100.00

The market value of the Foundation's investments on June 30, 1989 was $53,475,659 compared to $49,083,130 reported last June 30, 1988.

Investment income for the year ended June 30, 1989 was $3,413,215 compared to $2,897,926 in the previous year.

Foundation expenditures for all purposes, financed partly by grants totalling $868,866, were $3,547,771. In 1987-88 they were $3,222,807, with grants financing $431,760.

The net realized gain on security transactions was $1,298,400; $1,450,779 during the previous year.

TEN-YEAR RECORD OF INCOME AND INVESTMENTS

Fiscal Year Ended June 30	*Investment Income*	*Total Investments*	MARKET VALUE ON JUNE 30 *Equities*	*Equities as a % of Total*
1989	$3,413,215	$53,475,659	$24,593,355	45.99%
1988	2,897,926	49,083,130	21,834,152	44.48
1987	2,678,838	51,646,554	26,030,318	50.40
1986	3,094,568	49,042,138	29,630,513	60.42
1985	3,088,816	40,318,882	19,422,273	48.17
1984	2,242,564	33,864,353	16,877,427	49.84
1983	1,990,729	38,298,917	27,212,528	71.05
1982	2,044,231	26,210,203	15,907,750	60.69
1981	1,815,904	29,281,561	20,392,616	69.64
1980	1,682,855	24,997,332	15,214,648	60.86

The Foundation's board of trustees is responsible for its investments. The board and its finance and administration committee believe this responsibility is discharged effectively by permitting outside investment counsel (J. P. Morgan Investment Management, Inc.) to buy, sell, invest and reinvest for the account of the Foundation, subject to policies and guidelines determined in advance.

The trustees intend that the Foundation's investment policies be carried out in a manner consistent with social and ethical convictions prevailing in the educational community. In that spirit, the finance and administration committee and the treasurer's office devoted much attention during the past year to appropriate voting of proxies in corporations in which the Foundation's funds were invested.

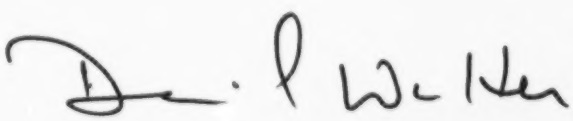
Expenditures for professors' retiring allowances and widows' pensions in

the course of the year amounted to $110,022, of which $2,952 was paid to Canadian beneficiaries.

The minimum professor's retiring allowance is $162 per month, and the minimum widow's pension $122 per month.

On June 30, 1989, there were 69 allowances and pensions in force—1 payable to a former professor and 68 to widows. At the end of the Foundation's previous fiscal year there were 86 allowances and pensions in force; 1 payable to professors and 85 to widows. Since the payment of the first allowance in 1906, $86,967,822 has been paid for these purposes.

The Foundation's financial statements and the report of KPMG Peat Marwick appear in the ensuing pages.



DAVID WALTER
Treasurer

November 21, 1989

TOTAL EXPENDITURES IN RETIRING ALLOWANCES AND WIDOWS' PENSIONS

SPECIFIED INSTITUTIONS	Fiscal Year 1989	TOTAL
Amherst College	$ 610.00	$ 802,136.77
Beloit College	1,464.00	447,168.05
California, University of	7,392.00	3,370,837.61
Carleton College	2,952.00	496,921.67
Carnegie-Mellon University	2,928.00	663,743.48
Cincinnati, University of	1,488.00	943,759.83
Colorado College	1,464.00	312,943.94
Columbia University	7,320.00	6,081,004.87
Cornell University	9,588.27	4,424,342.90
Dalhousie University	1,488.00	271,591.96
Dartmouth College	2,928.00	1,201,439.15
Harvard University	5,880.00	5,919,108.74
Johns Hopkins University	1,464.00	1,476,347.85
Lehigh University	2,952.00	761,209.80
Massachusetts Inst. of Technology	3,082.56	2,297,477.43
Michigan, University of	9,431.09	3,961,291.96
Middlebury College	1,464.00	339,473.13
Minnesota, University of	1,956.07	2,350,750.78
Missouri, University of	2,976.00	1,415,669.73
Pennsylvania, University of	11,869.37	2,992,083.20
Princeton University	4,404.00	2,283,782.93
Purdue University	1,909.56	1,050,489.40
Smith College	1,606.35	1,358,885.37
Stanford University	1,464.00	2,587,973.38
Stevens Inst. of Technology	1,488.00	445,960.72
Swarthmore College	1,464.00	541,734.55
Toronto, University of	1,464.00	2,667,035.98
Trinity College	1,488.00	281,346.52

SPECIFIED INSTITUTIONS	Fiscal Year 1988	TOTAL
Tufts College	1,464.00	482,537.01
Vermont, University of	1,081.82	440,815.66
Williams College	2,928.00	864,761.40
Wisconsin, University of	5,630.44	2,924,489.27
Worchester Polytechnic Institute	728.03	485,572.77
Yale University	2,204.04	4,379,889.54
Specified institutions with no remaining participants	—	22,331,413.79
TOTALS	110,021.60	83,655,991.14
Nonspecified institutions	—	3,311,830.39
GRAND TOTALS	$110,021.60	$86,967,821.53

INDEPENDENT AUDITORS' REPORT

THE BOARD OF TRUSTEES
THE CARNEGIE FOUNDATION FOR THE
ADVANCEMENT OF TEACHING:

We have audited the accompanying balance sheets of The Carnegie Foundation for the Advancement of Teaching as of June 30, 1989 and 1988, and the related statements of revenue, support and expenses and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Carnegie Foundation for the Advancement of Teaching at June 30, 1989 and 1988, and its revenue, support and expenses and changes in fund balances and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The current year's supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Princeton, N.J.
August 21, 1989

KPMG Peat Marwick

THE CARNEGIE FOUNDATION FOR THE ADVANCEMENT OF TEACHING

BALANCE SHEETS

JUNE 30, 1989 AND 1988

Assets	1989	1988
Investments (market value $53,475,659 in 1989 and $49,083,130 in 1988)		
Common stocks (at cost)	$ 20,336,578	$ 20,096,224
Fixed income (at amortized cost)	25,418,717	24,446,881
Short-term investments (at cost)	2,218,748	2,076,175
Total investments	47,974,043	46,619,280
Cash	148,334	98,472
Furniture and equipment at cost, less accumulated depreciation of $245,993 in 1989 and $199,184 in 1988	248,937	241,902
Leasehold improvements, less accumulated amortization of $303,921 in 1989 and $238,883 in 1988	581,044	512,256
Total assets	$ 48,952,358	$ 47,471,910
Liabilities and Fund Balances		
Liabilities		
Deferred revenue from grants	60,000	617,850
Other liabilities	4,333	4,595
Total liabilities	64,333	622,445
Fund balances		
Endowment funds		
Principal—nonexpendable	11,806,634	11,806,634
Net adjusted gains and losses—expendable	33,928,028	32,629,628
Total endowment fund balances	45,734,662	44,436,262
Current funds—unrestricted	829,981	2,413,203
Quasi-endowment funds—unrestricted	2,323,382	—
Total fund balances	48,888,025	46,849,465
Commitments (note 3)		
Total liabilities and fund balances	$ 48,952,358	$ 47,471,910

See accompanying notes to financial statements

STATEMENTS OF REVENUE, SUPPORT, AND EXPENSES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 1989

	CURRENT FUNDS		*Quasi-endowment funds—*	*Endowment*	
	Unrestricted	*Restricted*	*unrestricted*	*funds*	*Total*
Revenue:					
Interest and dividends	$3,413,215	—	—	—	3,413,215
Net gain on investment transactions	—	—	—	1,298,400	1,298,400
	3,413,215	—	—	1,298,400	4,711,615
Less:					
Expenses attributable to investment income	189,970	—	—	—	189,970
Net revenue	3,223,245	—	—	1,298,400	4,521,645
Support:					
Grants	—	868,866	—	—	868,866
Other revenue	5,850	—	—	—	5,850
Net revenue and support	3,229,095	868,866	—	1,298,400	5,396,361

(continued)

	CURRENT FUNDS		*Quasi-endowment funds—*		
	Unrestricted	*Restricted*	*unrestricted*	*Endowment funds*	*Total*
Expenses:					
Programs:					
Educational and research	567,046	868,866	—	—	1,435,912
Allowances and pensions	110,022	—	—	—	110,022
	677,068	868,866	—	—	1,545,934
Administration	1,811,867	—	—	—	1,811,867
Total expenses	2,488,935	868,866	—	—	3,357,801
Excess of net revenue and support over expenses	740,160	—	—	1,298,400	2,038,560
Fund balances at beginning of year	2,413,203	—	—	44,436,262	46,849,465
Transfer to quasi-endowment funds—unrestricted	(2,323,382)	—	2,323,382	—	—
Fund balances at end of year	$ 829,981	—	2,323,382	45,734,662	48,888,025

See accompanying notes to financial statements.

STATEMENT OF REVENUE, SUPPORT, AND EXPENSES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 1988

	CURRENT FUNDS		*Quasi-endowment funds—*	*Endowment*	
	Unrestricted	*Restricted*	*unrestricted*	*funds*	*Total*
Revenue:					
Interest and dividends	$2,897,926	—	—	—	2,897,926
Net gain on investment transactions	—	—	—	1,450,779	1,450,779
	2,897,926	—	—	1,450,779	4,348,705
Less:					
Expenses attributable to investment income	180,303	—	—	—	180,303
Net revenue	2,717,623	—	—	1,450,779	4,168,402
Support:					
Grants	—	431,760	—	—	431,760
Other revenue	30,826	—	—	—	30,826
Net revenue and support	2,748,449	431,760	—	1,450,779	4,630,988

(continued)

	CURRENT FUNDS		*Quasi-endowment funds—*	*Endowment*	
	Unrestricted	*Restricted*	*unrestricted*	*funds*	*Total*
Expenses:					
Programs:					
Educational and research	877,515	431,760	—	—	1,309,275
Allowances and pensions	132,345	—	—	—	132,345
	1,009,860	431,760	—	—	1,441,620
Administration	1,600,884	—	—	—	1,600,884
Total expenses	2,610,744	431,760	—	—	3,042,504
Excess of net revenue and support over expenses	137,705	—	—	1,450,779	1,588,484
Fund balances at beginning of year	2,275,498	—	—	42,985,483	45,260,981
Transfer to quasi-endowment funds—unrestricted	—	—	—	—	—
Fund balances at end of year	$2,413,203	—	—	44,436,262	46,849,465

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
INCREASE (DECREASE) IN CASH

YEARS ENDED JUNE 30, 1989 AND 1988

	1989	1988
Cash flows from operating activities:		
Excess of net revenue and support over expenses	$ 2,038,560	1,588,484
Adjustments to reconcile excess of net revenue and support over expenses to net cash provided by operating activities:		
Depreciation	46,809	43,715
Amortization	65,038	55,310
Change in assets and liabilities:		
Deferred revenue from grants	(557,850)	317,850
Other liabilities	(262)	2,781
Total adjustments	(446,265)	419,656
Net cash provided by operating activities	1,592,295	2,008,140
Cash flows from investing activities:		
Change in investments	(1,354,763)	(1,944,051)
Additions to furniture and equipment	(53,844)	(48,251)
Additions to leasehold improvements	(133,826)	(35,476)
Net cash used in investing activities	(1,542,433)	(2,027,778)
Net increase (decrease) in cash	49,862	(19,638)
Cash at beginning of year	98,472	118,110
Cash at end of year	$ 148,334	98,472

See accompanying notes to financial statements.

THE CARNEGIE FOUNDATION FOR THE
ADVANCEMENT OF TEACHING

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1989 AND 1988

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Carnegie Foundation for the Advancement of Teaching (the Foundation) was established to do and perform all things necessary to encourage, uphold and dignify the profession of teaching and to promote the cause of higher education.

Fund accounting:

To ensure observance of limitations and restrictions placed on the use of available resources, the accounts and financial activity are classified for accounting and reporting purposes into fund groups that are in accordance with activities and objectives specified. Fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control for use in achieving any of its purposes.

Quasi-endowment funds—unrestricted:

Quasi-endowment funds represent unrestricted funds allocated, by the Board of Trustees, for future purposes as the Board of Trustees may decide.

Endowment funds:

Nonexpendable endowment funds were received as a gift from Andrew Carnegie who, by the terms of the conveying instruments, stipulated

that the principal may never by expended. The Foundation's policy is to use interest and dividends earned by the endowment funds for current unrestricted purposes. Expendable endowment funds represent net gains on investment transactions which may be expended for support of Foundation activities.

Grant revenue:

The Foundation receives grants for specified restricted purposes from outside donors. The revenue from grants is recognized to the extent the grant is expended. The unexpended advances have been recorded as deferred revenue from grants in the accompanying financial statements.

Furniture and equipment:

Furniture and equipment are recorded at cost and depreciated on a straight-line basis over ten years. The Foundation's policy is to record a one-half year of depreciation expense in the year of acquisition. Depreciation expense for the years ended June 30, 1989 and 1988 was $46,809 and $43,715, respectively.

Leasehold improvements:

Leasehold improvements are recorded at cost and amortized on a straight-line basis over the remaining term of the lease. Amortization expense for the years ended June 30, 1989 and 1988 was $65,038 and $55,310, respectively. The improvements represent the cost of refurbishing the Foundation's headquarters.

Income taxes:

The Foundation is exempt from Federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code.

2 EMPLOYEE PENSION PLAN

The Foundation has a noncontributory employee defined contribution pension plan covering all full-time employees. The benefits contemplated by the plan are funded through the purchases of individual an-

nuity policies. The cost of the funding is charged to expense as accrued and there is no unfunded liability for past services. The expense for the years ended June 30, 1989 and 1988 was $156,230 and $145,018, respectively.

3 COMMITMENTS

Professors' allowances and widows' pensions:

At June 30, 1979, the last date of valuation, the Foundation's management estimated that the future payments for retired professors' allowances and widows' pensions payable at the discretion of the Foundation approximated $2,415,000. It was anticipated that, based on an actuarial study, these payments will terminate in the year 2001. Since the valuation date, the Foundation has made approximately $2,195,000 in payments.

Lease:

The Foundation leases office space under an operating lease arrangement expiring December 31, 1998. Rent expense for the years ended June 30, 1989 and 1988 was approximately $76,000 and $74,000, respectively. The minimum annual rental commitments at June 30, 1989 are as follows:

Year ending June 30,	Amount
1990	49,500
1991	49,500
1992	49,500
1993	49,500
1994	49,500
Later years	222,750

SCHEDULE OF FUNCTIONAL EXPENSES

SCHEDULE 1
YEAR ENDED JUNE 30, 1989

	Programs					
	Educational and research	*Allowances and pensions*	*Total programs*	*Administration*	*Investment*	*Total expenses*
Retiring allowances and widows' pensions	$ —	110,022	110,022	—	—	110,022
Salaries and employees' benefits	342,867	—	342,867	1,068,461	22,500	1,433,828
Studies and project payments	416,858	—	416,858	70,975	—	487,833
Books and publications—net of $101,165 revenue	13,535	—	13,535	73,339	398	87,272
Trustee meetings, conferences, and other foundation expenses	2,871	—	2,871	109,318	2,918	115,107
Rent	—	—	—	75,586	—	75,586
Travel	13,437	—	13,437	71,765	—	85,202
Travel and other accommodations	276,790	—	276,790	—	—	276,790
Legal, accounting and investment services	—	—	—	19,905	137,342	157,247
Services, supplies, equipment, depreciation, and amortization	15,238	—	15,238	190,923	21,214	227,375
Postage, telephone, and shipping	—	—	—	47,720	5,598	53,318
Computer services	11,930	—	11,930	2,454	—	14,384
Consultants	322,627	—	322,627	—	—	322,627
Car expense	—	—	—	7,252	—	7,252
Miscellaneous	19,759	—	19,759	74,169	—	93,928
	$1,435,912	110,022	1,545,934	1,811,867	189,970	3,547,771

SCHEDULE OF INVESTMENTS

SCHEDULE 2
JUNE 30, 1989

COMMON STOCKS	*Shares*	*Cost*	*Market Value*
Abbott Laboratories	7,000	$ 328,615	406,000
Alexander & Alexander Services, Inc.	14,000	252,717	346,500
American Home Products Corp.	4,000	297,055	377,000
Anheuser-Busch Cos, Inc.	10,000	304,350	417,500
Ashland Oil Inc.	10,000	349,625	386,250
Aristech Chemical Corp.	6,000	119,988	126,750
Avantek Inc.	15,000	243,625	73,125
Avnet Inc.	12,000	341,586	280,500
Baker Hughes Inc.	6,000	115,674	115,500
Bankers Trust New York Corp.	9,000	330,270	433,125
Boeing Co.	3,750	147,427	180,000
British Petroleum PLC A/D/R	4,000	217,061	224,500
Browning Ferris Industries Inc.	8,000	238,097	266,000
Capital Cities ABC Finance Inc.	1,000	210,645	465,000
Carpenter Technology Corp.	3,000	146,693	150,000
CBI Industries Inc.	7,000	209,890	232,750
Centerior Energy Corp.	40,000	541,771	720,000
Champion International Corp.	8,000	191,357	266,000
Cigna Corp.	5,000	333,601	279,375
Citicorp.	15,000	378,102	466,875
Coastal Corp.	6,000	185,732	247,500
Commonwealth Edison Co.	12,000	380,107	453,000
Consolidated Rail Corp.	3,000	93,881	108,000
Cray Research	2,000	108,120	99,000
Cummins Engine Co. Inc.	4,000	358,009	254,500
Digital Equipment Corp.	2,500	232,370	229,375
Dun and Bradstreet Corp.	2,000	98,373	114,250

(continued)

COMMON STOCKS	*Shares*	*Cost*	*Market Value*
E I DuPont De Nemours and Co.	1,500	150,653	163,125
Eaton Corp.	4,000	210,312	242,000
Enron Corp.	2,800	127,328	128,450
Entergy Corp.	50,000	670,843	962,500
First Union Corp.	3,000	70,080	76,125
Florida National Banks of Florida, Inc.	15,000	296,850	378,750
Ford Motor Co.	5,000	136,800	242,500
Fremont General Corp.	14,000	249,565	224,000
General Cinema Corp.	4,000	63,552	95,500
General Signal Corp.	4,000	190,019	221,500
Gillette Co.	6,000	231,618	240,750
Goodyear Tire & Rubber Co.	7,000	422,469	365,750
Hechinger Co.	15,000	261,922	264,375
Homefed Corp.	3,400	91,222	131,750
International Business Machines Corp.	8,000	1,082,879	895,000
Intel Corp.	4,000	99,152	116,000
International Flavors & Fragrances, Inc.	4,000	189,602	209,500
Johnson Controls Inc.	5,000	150,592	188,750
Larizza Industries Inc.	20,600	188,279	100,425
Limited Inc.	10,500	233,179	332,063
Liz Claiborne Inc.	15,000	235,641	318,750
Manor Care Inc.	15,000	177,450	234,375
Mapco Inc.	16,000	307,512	622,000
Merck & Co. Inc.	6,000	303,370	401,250
Monsanto Co.	1,300	121,621	136,987
Morton Thiokol Corp. Del.	6,500	247,775	297,375
MS Carriers Inc.	15,000	218,450	292,500
New York Times Co.	12,000	324,022	369,000
NIPSCO Industries Inc.	35,000	373,107	603,750
Norsk Hydro A's	14,000	210,504	329,000
Novell Inc.	3,000	92,625	85,500

(continued)

COMMON STOCKS	*Shares*	*Cost*	*Market Value*
Pacific Gas & Electric Inc.	20,000	348,700	405,000
Philip Morris Companies Inc.	4,500	262,439	623,812
Policy Management Systems Corp.	5,000	89,375	137,500
Premark International Inc.	10,000	306,905	259,000
Price Co.	7,000	253,095	280,000
Quanex Corp.	10,000	51,750	140,000
Ralston Purina Co.	5,000	296,791	458,125
Rowan Companies	40,000	294,848	335,000
Ryans Family Steakhouse	20,000	46,914	135,000
SHL Systemhouse Inc.	25,000	384,852	240,625
Shell Transport & Trading	16,000	300,194	634,000
Squibb Corp.	2,000	133,122	152,250
St. Jude Medical Center	6,000	72,295	209,250
Stone Container Corp.	6,000	175,459	152,250
Super Value Stores Inc.	8,000	182,940	222,000
Texaco Inc.	13,000	440,729	654,875
Texas Air Corp.	20,000	399,568	307,500
Toys R Us Inc.	12,000	205,244	345,000
Trinova Corp.	6,000	229,848	182,875
Union Carbide Corp.	12,000	288,812	316,500
Union Camp Corp.	7,000	234,683	245,875
U. S. West Inc.	6,220	173,261	429,180
Vipont Pharmaceutical Inc.	15,000	236,731	127,500
Warner Communications Inc.	5,000	147,240	301,875
Walt Disney Productions	1,500	120,799	141,938
WTD Industries Inc.	15,000	176,250	168,750
Total common stocks		$20,336,578	24,593,355

(continued)

FIXED INCOME SECURITIES	*Par value*	*Amortized cost*	*Market Value*
Beneficial Corp.			
Notes, 12%, November 1, 1994	$1,000,000	1,000,000	1,122,600
Champlin Petroleum Co.			
Loan, 12.05%,			
December 31, 2003	250,000	202,361	230,944
Chevron Capital			
Notes, 12%, November 1, 1994	$1,000,000	1,003,281	1,070,520
Churchill Falls (Labrador) Corp. Ltd.			
1st mortgage, 7¼%,			
December 15, 2007	113,000	98,000	89,425
Concord Leasing Inc.			
Notes, 9.78%, February 5, 1990	1,000,000	1,000,000	1,003,750
Delta Airlines, Inc.			
Notes, 13¾%, October 1, 1999	432,195	406,183	496,051
Federal Express Corp.			
Lease obligation, 10¾%,			
May 1, 2009	457,950	430,501	465,370
First Union Corp.			
Notes, 9.45%, June 15, 1999	500,000	500,000	509,350
Gulf Power Co.			
1st mortgage, 9.20%,			
April 1, 1998	300,000	278,444	280,533
Gulf State Utilities Co.			
1st mortgage, 10⅛%,			
April 1, 2009	600,000	546,731	564,696
Kmart Corp.			
Notes, 12⅛%, March 1, 1995	1,000,000	996,437	1,112,650
McCaw Cellular Communications, Inc.			
Zero coupon bond, June 15, 2008	500,000	273,423	354,000
Multimedia Inc.			
Notes, 16%, June 30, 2005	300,000	229,815	268,500

(continued)

FIXED INCOME SECURITIES	*Par value*	*Amortized cost*	*Market Value*
Northwest Airlines Inc.			
Lease obligation, 9.80%,			
July 15, 2009	500,000	500,000	490,625
Sara Lee Corp.			
Lease obligation, 8.745%,			
June 30, 1991	449,074	310,945	310,556
Sea Land			
Series income obligation, 10%,			
June 15, 2006	77,015	77,015	80,220
Sea Land			
Series income obligation, 10%,			
June 15, 2008	422,985	422,985	442,019
Swedish Export Credit Corp.			
Notes 9,80%, March 15, 1990	500,000	498,906	502,430
Systems Energy Resources Inc.			
Notes, 11.07%, January 15, 2004	300,000	298,500	312,000
U. S. Government and Agency			
Obligations:			
USA Treasury Bonds:			
10⅝%, August 15, 2015	676,000	797,642	857,465
USA Treasury Notes:			
13%, November 15, 1990	500,000	496,152	529,845
13¼%, July 15, 1991	970,000	1,047,157	1,069,124
12¼%, October 15, 1991	1,000,000	998,794	1,083,120
14⅝%, February 15, 1992	1,000,000	1,160,317	1,155,620
13¼%, May 15, 1992	500,000	500,000	570,310
11¾%, November 15, 1993	500,000	500,456	564,375
13⅛%, May 15, 1994	1,000,000	1,206,752	1,195,620
12⅝%, August 15, 1994	500,000	507,559	592,030
8⅝%, October 15, 1995	500,000	498,291	511,095
8⅞%, February 15, 1999	1,000,000	981,846	1,048,440
11⅝%, November 15, 1994	500,000	497,270	574,060

(continued)

FIXED INCOME SECURITIES	*Par Value*	*Amortized Cost*	*Market Value*
U. S. Government and Agency Obligations:			
Stripped U. S. Treasury Issues, February 15, 2000	$3,037,000	1,195,173	1,296,344
Federal Housing Administration Project Notes Pool No. 23, 7.43%, February 1, 2022	1,428,865	1,332,569	1,254,635
FHLMC Collateralized Mortgage Obligation Class 33-D, 8.00%, April 15, 2020	500,000	438,804	456,250
FHLMC Multiclass Mortgage Class 19-B, 8.50%, March 15, 2013	1,000,000	978,653	990,000
Wilmington Trust Co. Loan, 10.85%, December 30, 1993	485,012	415,755	415,350
Total fixed income securities		22,626,717	23,869,922

(continued)

NOTES	*Shares*		
Undivided interest in demand notes:			
Cadbury Schweppes Inc. at 9.10%	754,000	754,000	754,000
GMAC at 9.36%	1,539,000	1,539,000	1,539,000
Nordstrom Credit Inc. at 9.10%	499,000	499,000	499,000
Total notes		2,792,000	2,792,000
Total fixed income		$25,418,717	26,661,922
SHORT-TERM INVESTMENTS			
United Jersey Bank Short-Term Investment Management Account		$ 2,218,748	2,220,382
SUMMARY			
Common stocks		20,336,578	24,593,355
Fixed income securities		22,626,717	23,869,922
Notes		2,792,000	2,792,000
Short-term investments		2,218,748	2,220,382
Total investments		$47,974,043	53,475,659

THE CARNEGIE PHILANTHROPIES

ANDREW CARNEGIE SET OUT to give away $300 million. He gave away $311 million. Gifts to hundreds of communities in the English-speaking world helped to make his idea of the free public library as the people's university a reality. In all, 2,509 libraries were built with Carnegie funds. His endowment of the Carnegie Institute in Pittsburgh brought important educational and cultural benefits to the community in which he had made his fortune. From experience, he knew the importance of science applied to commerce and industry, and he provided for technical training through the Carnegie Institute of Technology. By establishing the Carnegie Institution of Washington, he helped to stimulate the growth of knowledge by providing facilities for basic research in science.

Mr. Carnegie set up the Carnegie Trust for Universities in Scotland to assist needy students and to promote research in science, medicine, and the humanities. For the betterment of social conditions in his native town of Dunfermline, Scotland, he set up the Dunfermline Trust. To improve the well-being of the people of Great Britain and Ireland, he established the Carnegie United Kingdom Trust.

In the United States, he created The Carnegie Foundation for the Advancement of Teaching primarily as a pension fund for college teachers, but also to promote the cause of higher education. To work for the abolition of war, he created the Carnegie Endowment for International Peace. And to recognize heroism in the peaceful walks of life as being as worthy as valor in battle, he created funds in the United States, the United Kingdom, and nine European countries to make awards for acts of heroism. In contributing to the construction of the Peace Palace at the Hague, the Pan American Union building (now the Organization of American States building) in Washington, D.C., and the Central American Court of Justice in Costa Rica, he further expressed his belief in arbitration and conciliation as substitutes for war.

In 1911, having worked steadily at his task of giving away one of the world's great fortunes, Mr. Carnegie created Carnegie Corporation of New

York, a separate foundation as large as all his other trusts combined, to carry on his spirit and system of giving.

Each of the Carnegie agencies has its own funds and trustees, and each is independently managed.

COMPLIANCE NOTE

THE FOLLOWING STATEMENTS are set forth in accordance with section 6033 of the United States Internal Revenue Code, pursuant to which this annual report has been prepared.

The Carnegie Foundation for the Advancement of Teaching (Employer Identification No. 13-1623924) is a private operating foundation within the meaning of section 509(a) and 4942(j)(3) of the Internal Revenue Code. The principal officer of the Foundation is its president, Ernest L. Boyer.

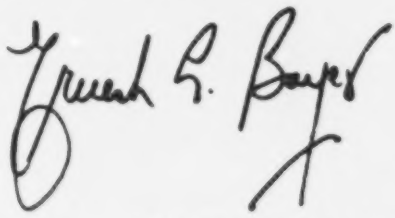
Pursuant to section 4 of its Charter, the principal office of the Foundation is located at 1755 Massachusetts Avenue, N.W., Washington, D.C., 20036. A primary office is maintained at 5 Ivy Lane, Princeton, New Jersey 08540.

The names and respective business addresses of the "foundation managers" of the Foundation are set forth on pages 5 through 9 of this annual report.

No person who is a "foundation manager" with respect to the Foundation has made any contribution to the Foundation in any taxable year.

At no time during the year did the Foundation (together with other "disqualified persons") knowingly own more than 2 percent of the stock of any corporation or corresponding interests in partnerships or other entities. The Foundation does not have and has never held "excess business holdings" in any business enterprise.

Pursuant to section 6104(d) of the Internal Revenue Code, a notice has been published that this annual report is available for public inspection at the Washington and Princeton offices of the Foundation. Copies of this annual report have been furnished to the appropriate officials in Washington, D.C.



ERNEST L. BOYER

November 21, 1989